

**LOUISIANA CITIZENS PROPERTY
INSURANCE CORPORATION**

Financial Statements and
Independent Auditor's Report

December 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/17/08

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Independent Auditor's Report

To the Board of Governors
Louisiana Citizens Property Insurance Corporation

We were engaged to audit the accompanying financial statements of the business-type activities and the major funds of the Louisiana Citizens Property Insurance Corporation (the Corporation) as of and for the year ended December 31, 2006, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management.

The Corporation has not maintained certain accounting records and supporting documents relating to transactions with its policy holders and vendors, nor is the Corporation's internal control adequate to provide safeguards over the Corporation's assets to assure the proper recording of transactions. Accordingly, we were unable to extend our auditing procedures sufficiently to determine the extent to which the financial statements may have been affected by these conditions. We were also unable to obtain written representations from management of the Corporation as required by generally accepted auditing standards.

The Corporation's current procedures and accounting system do not provide for the capture of financial information to create financial statements and disclosures which fully comply with generally accepted accounting principles, including capital and operating leases, contracts, and indirect cost allocations charged by their managing agent.

Since the Corporation has not maintained certain accounting records and supporting documents and did not have adequate internal controls, we were not able to apply other auditing procedures to satisfy ourselves as to the extent to which these financial statements are affected by these matters. Further, management was not able to provide us with written representations. Due to these matters, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of the Louisiana Citizens Property Insurance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Management has elected not to present the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements. The accompanying Schedule of Governing Board is presented for purposes of additional analysis and is not a required part of the basic financial statements. We did not audit the information and express no opinion on it.



A Professional Accounting Corporation

October 29, 2008

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Net Assets
December 31, 2006

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ -	\$ 54,710,981	\$ 54,710,981
Premium Receivables and Agents' Balances, Net	1,304,047	12,298,147	13,602,194
Regular Assessments Receivables, Net	2,072,803	2,706,843	4,779,646
Interest and Dividends Receivables	-	1,241,414	1,241,414
Deferred Policy Acquisition Costs	677,739	8,258,427	8,936,166
Reinsurance Receivables	301,628	5,930,355	6,231,983
Due From Other Funds	-	20,693,105	20,693,105
Other Current Assets	-	100,223	100,223
Total Current Assets	4,356,217	105,939,495	110,295,712
Noncurrent Assets			
Restricted Investments with Bond Trustee	-	431,616,479	431,616,479
Bond Issuance Costs, Net	-	24,046,891	24,046,891
State Taxes Receivable	-	390,540	390,540
Capital Assets, Net	-	10,401,923	10,401,923
Total Noncurrent Assets	-	466,455,833	466,455,833
Total Assets	4,356,217	572,395,328	576,751,545
Liabilities and Net Assets			
Current Liabilities			
Deficit in Cash	811,549	-	811,549
Unpaid Losses	56,721,241	412,541,902	469,263,143
Unpaid Loss Adjustment Expenses	8,479,544	58,367,408	66,846,952
Unearned Premiums	6,777,394	82,584,267	89,361,661
Servicing Fees Payable	1,102,547	10,866,887	11,969,434
Accrued Expenses, Taxes, Licenses and Fees	270,246	1,974,766	2,245,012
Accrued Bond Interest Payable	-	3,345,668	3,345,668
Commissions Payable to Agents	384,927	3,219,310	3,604,237
Unearned Tax Exempt Surcharge	203,322	2,477,528	2,680,850
Advance Premiums	148,656	3,264,125	3,412,781
Other Current Liabilities	65,672	38,181	103,853
Due to Other Funds	20,693,105	-	20,693,105
Total Current Liabilities	95,658,203	578,680,042	674,338,245
Noncurrent Liabilities			
Special Assessment Revenue Bonds	-	1,009,787,348	1,009,787,348
Total Liabilities	95,658,203	1,588,467,390	1,684,125,593
Net Assets			
Invested in Capital Assets, Net of Related Debt	-	10,401,923	10,401,923
Unrestricted	(91,301,986)	(1,025,473,985)	(1,117,775,971)
Total Net Assets	\$ (91,301,986)	\$ (1,015,072,062)	\$ (1,107,374,048)

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2006

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Operating Revenues			
Premiums Earned	\$ 9,016,529	\$ 75,874,462	\$ 84,890,991
Net Investment Income	643,897	5,298,675	5,942,572
Finance and Service Charges	275,140	3,812,862	4,088,002
Other Revenues	1,615	75,015	76,630
Total Operating Revenues	9,937,181	85,061,014	94,998,195
Operating Expenses			
Losses Incurred	34,978,252	243,620,560	278,598,812
Loss Adjustment Expenses	957,862	(14,569,641)	(13,611,779)
Underwriting Expenses	2,467,835	31,342,542	33,810,377
Total Operating Expenses	38,403,949	260,393,461	298,797,410
Operating Loss	(28,466,768)	(175,332,447)	(203,799,215)
Nonoperating Revenues (Expenses)			
Interest Expense	-	(35,886,599)	(35,886,599)
Net Investment Income	-	17,205,374	17,205,374
Market Equalization Charges	4,561,269	9,101,823	13,663,092
Tax Exempt Surcharge	356,105	4,242,338	4,598,443
Total Nonoperating Revenues (Expenses)	4,917,374	(5,337,064)	(419,690)
Changes in Net Assets	(23,549,394)	(180,669,511)	(204,218,905)
Net Assets, Beginning of Year	(67,752,592)	(844,914,443)	(912,667,035)
Prior Period Adjustment	-	9,511,892	9,511,892
Net Assets, Beginning of Year - Restated	(67,752,592)	(835,402,551)	(903,155,143)
Net Assets, End of Year	\$ (91,301,986)	\$ (1,016,072,062)	\$ (1,107,374,048)

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2006

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Cash Flows from Operating Activities			
Premiums Collected	\$ 11,344,027	\$ 113,377,390	\$ 124,721,417
Net Investment Income Received	643,897	5,298,675	5,942,572
Finance and Service Charges	275,140	3,812,862	4,088,002
Other Receipts	1,615	75,015	76,630
Losses Paid	(74,251,047)	(596,893,644)	(671,144,691)
Loss Adjustment Expenses Paid	(11,059,031)	(89,187,253)	(100,246,284)
Underwriting Expenses Paid	(2,572,328)	(33,798,091)	(36,370,419)
Net Cash Used in Operating Activities	(75,617,727)	(597,315,046)	(672,932,773)
Cash Flows from Noncapital Financing Activities			
Interfund Borrowing	44,622,779	(44,622,779)	-
Regular Assessments Received	2,499,742	3,108,240	5,607,982
Market Equalization Charges Received	4,561,269	9,101,823	13,663,092
Tax Exempt Surcharge Received	423,491	5,214,234	5,637,725
Net Cash Provided by (Used In) Noncapital Financing Activities	52,107,281	(27,198,482)	24,908,799
Cash Flows from Capital and Related Financing Activities			
Proceeds from Bond Anticipation Notes	-	375,000,000	375,000,000
Principal Payments on Bond Anticipation Notes	-	(375,000,000)	(375,000,000)
Proceeds from Bond Issuance	-	1,012,033,701	1,012,033,701
Purchases of Capital Assets	-	(3,531,864)	(3,531,864)
Costs of Issuance and Other Financing Fees	-	(27,735,892)	(27,735,892)
Interest Paid on Capital Debt	-	(31,098,283)	(31,098,283)
Net Cash Provided by Investing Activities	-	949,667,662	949,667,662
Cash Flows from Investing Activities			
Amounts Placed in Restricted Investments with Bond Trustee	-	(431,616,479)	(431,616,479)
Net Investment Income Received	-	15,963,960	15,963,960
Net Cash Used In Investing Activities	-	(415,652,519)	(415,652,519)
Net Decrease in Cash and Cash Equivalents	(23,510,446)	(90,498,385)	(114,008,831)
Cash and Cash Equivalents, Beginning of Year	23,510,446	145,209,366	168,719,812
Cash and Cash Equivalents, End of Year	\$ -	\$ 54,710,981	\$ 54,710,981

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2006

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Reconciliation of Operating Loss to Net Cash Used in Operating Activities			
Operating Loss	\$ (28,466,768)	\$ (175,332,447)	\$ (203,799,215)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities			
Depreciation Expense	-	2,641,833	2,641,833
Decrease (Increase) in Premiums Receivable and Agents' Balances	(65,354)	1,906,061	1,840,707
Decrease in State Taxes Receivable	105,844	1,210,403	1,316,247
Increase in Deferred Policy Acquisition Costs	(677,739)	(8,258,427)	(8,936,166)
Decrease in Reinsurance Receivable	2,541,189	49,962,707	52,503,896
Increase in Other Assets	-	(1,220,918)	(1,220,918)
Increase in Deficit in Cash	811,549	-	811,549
Decrease in Unpaid Losses and Loss Adjustment Expenses	(52,726,702)	(506,992,685)	(559,719,387)
Decrease in Unearned Premiums	2,246,202	32,396,539	34,642,741
Decrease in Servicing Fees Payable	416,320	2,898,617	3,314,937
Decrease in Accrued Taxes, Licenses, Fees, and Other Expenses	112,533	582,662	695,195
Increase (Decrease) in Commissions Payable to Agents	30,977	(256,115)	(225,138)
Decrease in Advance Premiums	146,650	3,200,328	3,346,978
Increase in Other Liabilities	(92,428)	(53,604)	(146,032)
Net Cash Used in Operating Activities	\$ (75,617,727)	\$ (597,315,046)	\$ (672,932,773)

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Louisiana Citizens Property Insurance Corporation (the Corporation) was created in accordance with provisions of Louisiana Revised Statute (LRS) 22:1430, to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who are in good faith entitled, but are unable, to procure insurance through the voluntary market. The Corporation operates residual market insurance programs, throughout the State of Louisiana, designated as the Coastal Plan (succeeded the Louisiana Insurance Underwriting Plan) and the Fair Access to Insurance Requirements Plan, (FAIR Plan) (succeeded the Louisiana Joint Reinsurance Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance above the Intracoastal Waterway.

The Corporation began operations on January 1, 2004, with its headquarters and corporate offices located in Metairie, Louisiana. It is governed by a board of directors consisting of 15 members, who serve without compensation. The Board consists of the Commissioner of the Department of Insurance, the State Treasurer, The Chairman of the House Committee on Insurance, The Chairman of the Senate Committee on Insurance or their designees, nine representatives appointed by the Governor, and two representatives appointed by the Commissioner of the Department of Insurance. During 2006, one board position was vacant. Also during 2006 and since inception, the Corporation has not employed any personnel.

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered a component unit of the State of Louisiana because the relationship with the state is such that the exclusion of the Corporation's information from the State's financial statements would cause the State's financial statements to be incomplete or misleading. The accompanying financial statements present information only as to the transactions and programs of the Louisiana Citizens Property Insurance Corporation, a component unit of the State of Louisiana. The Corporation is reported as an enterprise fund within the State of Louisiana's Comprehensive Annual Financial Report.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation reports the following major proprietary funds:

The *Coastal Plan* accounts for all activities of the Coastal Plan. The Coastal Plan provides insurance on property located in the State of Louisiana between the Gulf of Mexico and the Intracoastal Waterway.

The *FAIR Plan* accounts for all activities of the FAIR Plan. The FAIR Plan provides insurance to areas of the State of Louisiana above the Intracoastal Waterway.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Generally, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Corporation has elected not to follow subsequent private-sector guidance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make certain estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

The determination of the unpaid losses and unpaid loss adjustment expense amounts are particularly sensitive estimates subject to change.

Cash, Cash Equivalents and Investments

The Corporation has defined cash and cash equivalents to include cash on hand and demand deposits. Under State Law, the Corporation may invest in United States Bonds, treasury notes or certificates. The Corporation also may invest in direct repurchase agreements of any federal bank. The collateral for the agreement can only include securities as described above. Investments are stated at their fair value which approximates cost.

Receivables

Premium receivables and agents' balances are reported net of amounts not collected within 90 days subsequent the balance sheet date.

Fair Value of Financial Instruments

The carrying value of cash, receivables and accounts payable approximates fair value due to the short maturity of these instruments and obligations.

Interfund Activity

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to or from other funds in the accompanying financial statements.

Reinsurance

In the normal course of business, the Corporation seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy.

Recognition of Premium Revenues

Revenues from written premiums are recorded as unearned premiums and recognized when earned, on a straight-line basis, over the contract period. The tax exempt surcharge assessed on all written premiums is recognized consistent with the premium recognition policy.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Unpaid Claims and Claim Adjustment Expenses

The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings. The reserves for losses and loss adjustment expenses are reported net of estimated recoveries from reinsurance of approximately \$40,205,157 and \$4,818,289, respectively.

Deferred Policy Acquisition Costs

Commissions and other costs of acquiring insurance that are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies to which they relate. Amortization in 2006 was \$9,831,191 and is reported within underwriting expenses in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

Capital Assets

All acquisitions of property and equipment in excess of \$5,000 whose useful lives extend beyond a one year period are capitalized. Capital assets consist of electronic data processing and communication equipment. They are recorded at cost and depreciated using the straight-line method over the following useful lives:

Electronic data processing equipment	5 Years
Communication equipment	10 Years

Depreciation expense for 2006 totaled \$2,641,833.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation, but which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Corporation or unasserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is *reasonably possible*, or is *probable but cannot be estimated*, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

Defining Operating Revenues and Expenses

The Corporation distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses consist of charges for insurance policies and the costs of providing such policies. All other revenues and expenses are reported as nonoperating.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

Pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service, the Corporation constitutes an integral part of the State of Louisiana and its income is exempt from federal income tax.

Note 2. Stewardship, Compliance and Accountability

Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of the Corporation in financial institutions must be secured with acceptable collateral valued at the lower of cost or market or par. As of December 31, 2006, the Corporation's cash and cash equivalents were entirely insured or collateralized with securities held by its agent in the Corporation's name.

Deficiency in Net Assets

The Corporation reported a deficiency in net assets of \$1,107,374,048 at December 31, 2006, resulting from losses on insured property caused by Hurricanes Katrina and Rita. The Corporation plans to eliminate the deficit through regular and emergency assessments on affected insurance companies and policy holders.

Note 3. Cash, Cash Equivalents and Investments

The Corporation's cash and cash equivalents consist of the following at December 31, 2006:

	Carrying Amount	Bank Balance
Demand Deposits	\$ 53,899,432	\$ 85,956,368
Total	\$ 53,899,432	\$ 85,956,368

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. As of December 31, 2006, \$85,856,368 of the Corporation's bank balance of \$85,956,368 was exposed to custodial credit risk. \$100,000 of deposits were secured by federal deposit insurance coverage, which was not exposed to custodial credit risk. The remaining deposits, which were exposed to custodial credit risk, were secured by the pledge of securities owned by the fiscal agent bank.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

At December 31, 2006, the Corporation has investments which totaled \$431,616,479 which are detailed as follows:

Credit Risk

Investment	Rating	Percentage
Mutual Fund - Treasury Obligations	AAAm	69%
Mutual Fund - Income Cash	None	.2%
Repurchase Agreement with a Federal Bank, Securities Held by Bank	AAA	21%
Repurchase Agreement with a Federal Bank, Securities Held by Bank	Varies	9.8%

The Corporation does not have a formal investment policy regarding investment credit risk.

Concentration of Credit Risk

The Corporation has no formal limit on the amount the Corporation may invest in any one issuer. More than 5% of the Corporation's investments are in Mutual Fund - Treasury Obligations and the two repurchase agreements with federal banks.

Interest Rate Risk

Investment	Maturity	Fair Value
Mutual Fund - Treasury Obligations	None	\$ 299,099,102
Mutual Fund - Income Cash	None	\$ 1,194,707
Repurchase Agreement with a Federal Bank, Securities Held by Bank	Varies	\$ 90,506,824
Repurchase Agreement with a Federal Bank, Securities Held by Bank	6/1/2026	\$ 40,815,846

The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 4. Regular Assessments Receivable and Revenue

LRS 22:1430 states that any insurer who engages in writing property insurance within Louisiana shall become an assessable insurer in the Coastal Plan and FAIR Plan. In the event that the Governing Board of the Corporation determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Corporation may levy regular assessments against assessable insurers for each affected plan in order to help offset such deficit. Furthermore, assessable insurers are permitted to recoup all regular assessments from their policyholders by applying a surcharge to all policies.

The Governing Board levied a 2005 Regular Assessment in an amount that equaled 10% for the FAIR Plan and 5% for the Coastal Plan, of the aggregate statewide direct written premium for the subject lines of business for the calendar year 2004. At December 31, 2006, amounts still owed to the Corporation totaled \$4,779,646 of the 2005 assessment and is reported as regular assessments receivable, net of an estimated uncollectible amount of \$80,615. There were no Regular Assessments levied during 2006.

Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance January 1, 2006 As Restated	Increases	Decreases	Balance December 31, 2006
Capital Assets Being Depreciated:				
Electronic Data Processing Equipment	\$ 10,168,765	\$ 2,962,368	\$ -	\$ 13,131,133
Communication Equipment	-	569,496	-	569,496
Total Capital Assets Being Depreciated	10,168,765	3,531,864	-	13,700,629
Less Accumulated Depreciation for:				
Electronic Data Processing Equipment	(656,873)	(2,608,612)	-	(3,265,485)
Communication Equipment	-	(33,221)	-	(33,221)
Total Accumulated Depreciation	(656,873)	(2,641,833)	-	(3,298,706)
Total Capital Assets Being Depreciated, Net	\$ 9,511,892	\$ 890,031	\$ -	\$ 10,401,923

Note 6. Risk Management

The Corporation has a geographic exposure to catastrophe losses in the areas where its policy holders' insured property resides. These catastrophes can be caused by various events, including hurricanes, windstorms, hail, and flooding, and the incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and severe flooding may produce significant damage in large, heavily populated areas. The Corporation generally seeks to reduce its exposure to catastrophes through the purchase of catastrophe reinsurance.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 7. Reinsurance Receivable & Concentrations of Credit Risk

Reinsurance contracts do not relieve the Corporation from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Corporation; consequently, allowances are established for amounts deemed uncollectible. The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Corporation limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers on an automatic basis under general reinsurance contracts known as "treaties." The Corporation acquired catastrophe reinsurance coverage of \$665,000,000 per occurrence and \$1,330,000,000 in the aggregate for combined losses in excess of \$75,000,000 for the policy year beginning June 2006 and ending May 2007. They also obtained an additional \$45,000,000 of coverage in excess of \$30,000,000 for the second and third events. The Corporation will bear a prorated risk of loss of 10% and the reinsurance carrier bears a prorated risk of loss of 90% of the reinsured losses. The Corporation would bear 100% of the risk for all losses in excess of the policy limits.

The effect of reinsurance on premiums written and earned is as follows:

	Written	Earned
Direct	\$ 187,669,137	\$ 154,643,652
Assumed	-	-
Ceded	(69,752,661)	(69,752,661)
Net	\$ 117,916,476	\$ 84,890,991

The amount of recoveries pertaining to reinsurance contracts that were deducted from losses incurred and loss adjustment expenses during 2006 were approximately \$54,359,775 and \$2,781,022, respectively.

Note 8. Special Assessment Revenue Bonds

On April 11, 2006, the Corporation offered for public sale, \$678,205,000 in Series 2006B and \$300,000,000 in Series 2006C Special Assessment Revenue Bonds. The bonds were issued to eliminate the 2005 Plan Year Deficit resulting from Hurricanes Katrina and Rita. The bonds and interest will be payable from Emergency Assessment revenues during 2007 and subsequent years. The Series 2006B bear variable interest rates from 4% - 5.25% per annum and Series 2006C Bonds will bear interest at an Auction Mode Rate resulting from auction procedures.

Bond activity for the year ended December 31, 2006, was as follows:

	Balance January 1, 2006	Increases	Decreases	Balance December 31, 2006
Special Assessment Revenue Bonds				
Series 2006B	\$ -	\$ 678,205,000	\$ -	\$ 678,205,000
Series 2006C	-	300,000,000	-	300,000,000
Total Special Assessment Revenue Bonds	\$ -	\$ 978,205,000	\$ -	\$ 978,205,000

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 8. Special Assessment Revenue Bonds (Continued)

Debt service requirements at December 31, 2006, was as follows:

Year Ending December 31,	Series 2006B Revenue Bonds		Series 2006C Revenue Bonds		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ 33,776,012	\$ -	\$ 11,253,281	\$ -	\$ 45,029,293
2008	-	33,776,012	-	11,253,281	-	45,029,293
2009	31,800,000	33,004,987	-	11,253,281	31,800,000	44,258,268
2010	34,360,000	31,363,825	-	11,253,281	34,360,000	42,617,106
2011	35,080,000	29,577,813	-	11,253,281	35,080,000	40,931,094
2012 to 2016	206,590,000	119,118,182	-	56,266,405	206,590,000	175,384,587
2017 to 2021	264,020,000	60,308,126	-	56,266,405	264,020,000	116,574,531
2022 to 2026	106,355,000	4,751,288	225,000,000	44,078,672	331,355,000	48,829,960
2027	-	-	75,000,000	1,467,761	75,000,000	1,467,761
	<u>\$ 678,205,000</u>	<u>\$ 345,776,245</u>	<u>\$ 300,000,000</u>	<u>\$ 214,345,648</u>	<u>\$ 978,205,000</u>	<u>\$ 560,121,893</u>

Note 9. Related Party Transactions

The Corporation entered into an agreement for services with the Property Insurance Association of Louisiana (PIAL) effective January 1, 2004, whereby PIAL performs for the Corporation on a cost and expense reimbursement basis without profit, commission or fees to PIAL, such services as may be required to operate and administer the Corporation's business activities. During 2006, the Corporation and PIAL were governed by common board members and corporate officers. Operating expenses billed to the Corporation by PIAL for 2006 amounted to \$11,607,305. At December 31, 2006, the Corporation had overpaid its December invoice and was owed \$37,598 by the Property Insurance Association of Louisiana, which was applied to their January 2007 remittance.

Note 10. Commitments

The Corporation entered into Service Provider Agreements with Bankers Insurance Group, First Premium Insurance Group, Inc., and MacNeill Group, Inc. to provide underwriting, policy issuance and administration and claims processing services beginning October 1, 2005, and ending September 30, 2008. Policy administration services are performed for a fixed fee per application/policy and claims administration services are performed for a percentage of net loss paid, subject to a minimum and maximum dollar fee.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 11. Going Concern

Due to the catastrophic effects of Hurricanes Katrina and Rita, the Corporation maintains a deficit in net assets of \$91,301,986 for the Coastal Plan and \$1,016,072,062 for the Fair Plan at December 31, 2006. Louisiana Revised Statute 22:1430.16(E) states that in the event that a deficit is not remedied by the regular assessment described in Note 4, the Corporation may declare an emergency assessment. The amount of the emergency assessment in any year must not exceed either 10% of the remaining deficit or 10% of the aggregate statewide direct written premium for subject lines of business. Management began the process to alleviate the deficit by issuing revenue bonds in April 2006 which will be retired using annual emergency assessments beginning January 1, 2007. Revenues from the emergency assessments will be recognized as they are levied.

Note 12. Other Contingencies

The Corporation is a defendant in various individual and/or alleged class action suits arising from allegations made for failing to timely and/or properly adjust and pay claims on insured property, many of which were related to damages during Hurricanes Katrina and Rita. The Corporation denies the allegations made in these suits and has vigorously defended itself. At December 31, 2006, the Corporation's counsel has estimated that the potential exposure would not exceed amounts provided for within the loss and loss adjustment expense reserves of the financial statements.

During October 2008, the Corporation was presented with a proposed settlement of the class actions claims filed. The Corporation's Board of Governors has reviewed the proposed settlement and believes it will bring an end to three years of costly litigation. The maximum exposure of the settlement is \$35,000,000, including payment of the plaintiffs' counsel fees and other costs. The Corporation believes the actual exposure to be less than the maximum. The Civil District Court in New Orleans has scheduled a fairness hearing on the settlement in December 2008.

Note 13. Prior Period Entry

In previous years, the Corporation reported its purchases of capital assets as operating expenses within its Statement of Revenues, Expenses and Changes in Net Assets, which did not conform with generally accepted accounting principles. The Corporation recently adopted a capitalization policy and beginning net assets as previously reported have been restated to conform with generally accepted accounting principles. The Corporation's Net Assets as of January 1, 2006, has been restated as follows:

	FAIR Plan
Beginning Net Assets, As Previously Reported	\$ (844,914,443)
Adjustment of Fixed Asset Balances	9,511,892
Beginning Net Assets, As Restated	<u>\$ (835,402,551)</u>

SUPPLEMENTAL INFORMATION

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Governing Board
For the Year Ended December 31, 2006

<u>Board Member</u>	<u>Appointing Agency</u>	<u>Compensation</u>
Chad Brown, Chairman	Commissioner of Insurance - Designee	\$ -0-
Jim Napper	State Treasurer - Designee	-0-
Karen Carter	Louisiana Representative	-0-
Robert W. "Bob" Kostelka	Louisiana Senator	-0-
Jeff Albright	Independent Ins. Agents/Brokers of Louisiana	-0-
Blaine Briggs	Louisiana Farm Bureau Mutual Ins. Co.	-0-
Ron Newson	State Farm Insurance Company	-0-
Mike Ely, Vice-Chairman	Allstate Insurance Company	-0-
Joelle Lapeze	Hanover Insurance Company	-0-
John Milette	St. Paul Travelers Companies	-0-
Lee Mallet	Governor Appointee	-0-
Peter Henry	Governor Appointee	-0-
Michael W. Domingue	Governor Appointee	-0-
Hal Stiel	Professional Insurance Agents of Louisiana	-0-
Vacant Position	Alliance of American Insurers	-0-



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Governors
Louisiana Citizens Property Insurance Corporation

We were engaged to audit the accompanying financial statements of the business-type activities of the Louisiana Citizens Property Insurance Corporation (the Corporation) as of and for the year ended December 31, 2006, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated October 29, 2008. We did not express an opinion on the financial statements because of various scope limitations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Citizens Property Insurance Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses listed as 2006 - 14 through 2006 - 17, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control. We believe that the significant deficiencies described in the accompanying schedule of findings and responses listed as 2006 - 4 through 2006 - 13, to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Citizens Property Insurance Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses listed as 2006 - 1 through 2006 - 3.

The Corporation's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Governors and the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.


A Professional Accounting Corporation

October 29, 2008

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2006

2006 - 1 Reporting Requirements

<i>Criteria</i>	Louisiana Revised Statutes (LRS) 22:1430.14 and 22:1451 require quarterly and annual statutory statements to be filed with the Commissioner of Insurance for the Coastal Plan and the FAIR Plan. The annual statement is due March 1 st following the year end and quarterly reports are due prior to May 15 th , August 15 th and November 15 th . LRS 24:513 and the <i>Louisiana Governmental Audit Guide</i> require the annual audit to be completed and submitted to the Legislative Auditor within six months subsequent to the close of the entity's fiscal year end.
<i>Condition</i>	The Louisiana Citizens Property Insurance Corporation's (the Corporation) required filings were submitted well after the due dates as described above. The annual filing to the Commissioner of Insurance for 2005 and 2006 have not yet been filed and are on extension until December 31, 2008.
<i>Cause and Effect</i>	This condition was caused by the myriad of accounting problems that arose in the aftermath of Hurricanes Katrina and Rita. The effect of this condition was noncompliance with the aforementioned Louisiana Revised Statutes.
<i>Recommendations</i>	None
<i>Management's Response</i>	New management has worked diligently to rebuild the accounting data for the Coastal and the FAIR Plans. Management has set a timetable which will bring the Corporation into compliance with future filing requirements. According to that timetable, 2007 will be completed by December 1, 2008.

2006 - 2 Policy Take Out Program

<i>Criteria</i>	LRS 22:1430.23 requires, at least annually, the Corporation to offer its in-force policies for removal to the voluntary market. This is to encourage the ultimate depopulation of these residual market plans.
<i>Condition</i>	The Corporation's first policy take out program began in 2008.
<i>Cause and Effect</i>	This condition was caused by the high volatility in the insurance markets within the State and the significant reduction in the number of companies writing policies subsequent Hurricanes Katrina and Rita. The effect of this condition was noncompliance with the aforementioned Louisiana Revised Statutes.
<i>Recommendations</i>	None
<i>Management's Response</i>	New management has instituted the first program in 2008 and has developed procedures to ensure the program is continuous. The ultimate goal is the depopulation of the Corporation's premiums written and policies in force as well as to aid the public in obtaining affordable rates for their covered property. In June 2008, approximately 27,000 policies were depopulated. A second depopulation is scheduled for the fall of 2008.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 3 Board Minutes

<i>Criteria</i>	LRS 22:1430.2 defines Louisiana Citizens Property Insurance Corporation as a public body. LRS 42:7.1 mandates all public bodies shall keep written minutes of all of their open meetings. The minutes shall include at least (1) the date, time, and place of the meeting; (2) the members of the public body recorded as either present or absent; (3) the substance of all matters decided, and, at the request of any member, a record, by individual member, of any votes taken; (4) any other information that the public body requests be included or reflected in the minutes. It also provides that the minutes shall be public records and shall be available within a reasonable time after the meeting.
<i>Condition</i>	The Corporation was unable to provide board minutes for meetings held within five months between the periods of June 1, 2006 and January 31, 2007, as well as no sub-committee minutes since inception. Minutes for the meeting of the Governing Board that were made available to us were in many cases prepared months after the meetings were held. Copies provided to the auditors were not executed by the Governing Board and many appeared to be incomplete. References were made to additional documents which did not accompany the minutes.
<i>Cause and Effect</i>	The Corporation has not had a consistent corporate secretary and minutes may not have been prepared for the meetings in question. It appears that the entity is not in compliance with LRS 42:7.1 and 44:36 in the taking of minutes or the preservation of those public documents.
<i>Recommendations</i>	We recommend a minute book be kept as part of the permanent corporate records with board approved copies of the minutes of the meetings of the governing board and sub-committees. We further recommend that all resolutions approved and executed by the board be kept permanently.
<i>Management's Response</i>	New management has appointed a corporate secretary and all minutes will be approved and executed by the Governing Board, kept permanently and made available to the public within a reasonable time after the meetings.

2006 - 4 Louisiana Plans Management System (LPMS)

<i>Criteria</i>	For proper controls over the premiums and claims cycles, the Corporation should have a policy management system that supplies relevant and accurate financial data to the general ledger system.
<i>Condition</i>	The Property Insurance Association of Louisiana (PIAL) contracted, on the Corporation's behalf, with a software vendor to develop and provide implementation, maintenance and support of the LPMS. LPMS was put into service on October 1, 2005, to process claims and manage policies. Management identified, subsequent to the end of the 2005 fiscal year, that the vendor had not completed many of the necessary functions within LPMS and that the data tables which feed the interface between LPMS and their accounting software were not being populated. Therefore, accounting transactions were either being recorded incorrectly or not at all. LPMS has also been unable to produce reliable statistics.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 4 Louisiana Plans Management System (LPMS) (Continued)

<i>Cause and Effect</i>	The cause appears to be errors made in the design and implementation of LPMS. The effect was a lack of controls over the premium and claims cycles. The system's failure to produce accurate or reliable financial information has had a significant impact on the Corporation's ability to produce accurate financial statements. The Corporation has incurred many subsequent costs for consultants, accountants and analysts to accumulate and correct financial data as well as additional costs to repair the LPMS system.
<i>Recommendations</i>	Management should consider replacing LPMS or making changes so that it can be more effective.
<i>Management's Response</i>	Management has determined that the LPMS system should be replaced. A request for proposal (RFP) for a new system was released in July 2008. The new system will be an "off the shelf" software that has been proven to be successful at other property insurance companies.

2006 - 5 Contract Review and Approval

<i>Criteria</i>	The Corporation's approved Plan of Operations §6(A)(9) delegates the authority to the CEO to execute contracts with vendors up to \$15,000 or up to public contract laws not subject to bid requirements without first obtaining approval from the governing board. All contracts exceeding the limitation require board approval.
<i>Condition</i>	The current management could not provide a listing of open contracts which existed during 2006. Access was provided to copies of contracts which the current management had accumulated or acquired, but we were unable to determine whether the data accumulated was complete in order to determine the Corporation's compliance with all contract provisions. It appears the Corporation does not have a consistent process for which services are solicited from outside vendors. A RFP process is evident in a few instances, but the majority of contracts do not provide enough information to make a determination. We were also unable to identify whether a policy or process exists for the selection of counsel and law firms regarding claims litigation suits or other professional service contracts. We identified a contract executed between the Corporation and vendors by the CEO which exceeded the limitation that did not contain evidence of board authorization.
<i>Cause and Effect</i>	The condition arose from the lack of board oversight over the contract process and inconsistent procedures within the solicitation and acquisition of services from third parties. The effect is the inability to ensure compliance with disclosure requirements and the terms of the contract.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 5 Contract Review and Approval (Continued)

Recommendations We recommend the Corporation comply with the regulations set forth within the Plan of Operations by obtaining required board approvals on contracts exceeding limitations or thresholds. We further recommend the Corporation establish a method for tracking open contracts to ensure compliance by vendors, monitor third parties payment requests in accordance with contract guidelines, provide necessary disclosure information under generally accepted accounting principles, and implement controls to avoid opportunities for misuse of authority. This method should include a listing of contracts, their terms, maximum approved consideration, and retention of executed copies.

Management's Response Management will review its current process in obtaining goods and services from third parties and will ensure all contracts contain the necessary and required authorizations.

2006 - 6 Conflicts of Interest

Criteria Having common management and common board members could potentially provide for a biased approach to corporate governance including, but not limited to, how funds are spent.

Condition It came to our attention that there were conflicts of interest between the management of the Corporation and the management of their managing agent, the Property Insurance Association of Louisiana (PIAL). Predominately, all of the Corporation's operating expenses were incurred by and reimbursed to PIAL. PIAL provided all personnel including the Chief Executive Officer and the Chief Operating Officer, who held their positions with both entities. The entities also had common board members. We are aware that during 2007, the two entities began obtaining separate officers and board members and in 2008, the Corporation began hiring its own personnel.

Cause and Effect The Governing Board did not provide sufficient administrative staff during the creation of the Corporation to ensure an appropriate level of authorization and review of the managing agent's functions. The effect was inadequate segregation of duties and controls between authorization of expenditures and disbursements of funds.

Recommendations Board Members and employees should avoid situations where there could be conflicts with, or appear to have conflicts with, the interests of the Corporation.

Management's Response The Corporation is currently managed by its own officers and directors, which are separate from the Property Insurance Association of Louisiana. The Corporation has drafted a written conflict of interest policy that will be reviewed and approved by the Board of Governors in their November 2008 meeting.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 7 PIAL's Contract Authorization & Reimbursement Requests

<i>Criteria</i>	Effective January 1, 2004, a contract for management and administrative services between PIAL and the Corporation was approved by the board and the Office of State Purchasing for a period of one year with options to renew for subsequent years not to exceed five years. The agreement stated that PIAL would operate without profit on an expense reimbursement basis and that PIAL was not authorized to enter into contracts on the Corporation's behalf without express authority of the Corporation's governing board.
<i>Condition</i>	During our contract review, we identified four contracts with costs ranging between \$130,000 and \$6 million, executed between PIAL and outside vendors on behalf of the Corporation containing no evidence of authorization from the Corporation's governing board. The costs of these expenses were reimbursed to PIAL by the Corporation as part of a monthly reimbursement request under their management agreement. Within these reimbursement requests, we further evidenced payments to apartment complexes for rent, furniture, cleaning services, cable services, and utilities which did not contain enough information to determine the nature of these expenses. We identified late fees paid by PIAL on vendor invoices which were passed through to the Corporation for reimbursement. In addition, a significant portion of the expenditures contained on the reimbursement requests were calculated based on an indirect cost allocation. The senior management responsible for establishing and calculating the allocation rates within PIAL was also the person who paid the invoices out of the Corporation's due to common management of the two entities. We could not determine how this allocation was determined and further identified inconsistencies in the application of the calculation. We also could not evidence approval of the indirect cost allocation rate by the Corporation's Governing Board or other senior management.
<i>Cause and Effect</i>	The Governing Board did not provide sufficient administrative staff during the creation of the Corporation to ensure an appropriate level of authorization and review of the managing agent's functions. The effect was inadequate segregation of duties and controls between authorization of expenditures and disbursements of funds.
<i>Recommendations</i>	All expenditures for the benefit of the Corporation must be approved by appropriate personnel within the Corporation prior to incurrence. Management should assign appropriate personnel to review and approve invoices prior to remittance of consideration.
<i>Management's Response</i>	New management has instituted written policies and procedures to ensure that expenditures incurred by the Corporation are approved at an appropriate level of management and payments for services are segregated from the authorization functions.

2006 - 8 Supporting Documentation for PIAL Invoices

<i>Criteria</i>	Authorization of vendor invoices cannot be performed effectively unless supporting documentation is provided as part of the request for reimbursement.
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LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 8 Supporting Documentation for PIAL Invoices (Continued)

<i>Condition</i>	During our testing of the expense reimbursement requests from PIAL, the Corporation was unable to provide any supporting documentation other than a monthly system generated profit and loss statement of PIAL's operating activities and an indirect cost allocation. PIAL subsequently provided the supporting documentation for some of the items selected for testing to the auditors, but we remained unable to determine how the expenditures related to the Corporation. Much of the supporting documentation was not evidenced and some documents provided as support were not invoices, such as emails from vendors requesting payment or other informal notes. We were unable to determine that the personnel expenses charged to the Corporation were for actual work related to the Corporation's operations. No time or other detail was evident. In addition, we could not evidence that the supporting documentation was reviewed by management prior to the disbursement of payment to PIAL.
<i>Cause and Effect</i>	The cause appears to be a lack of oversight by the Governing Board over the authorization and review of the managing agent's requests for reimbursement. The effect was inadequate segregation of duties and controls between authorization of expenditures and disbursements of funds.
<i>Recommendations</i>	We recommend all requests for reimbursement be accompanied by appropriate supporting documentation stating the business purpose for the expenditure.
<i>Management's Response</i>	Beginning in 2008, the management agreement with PIAL was terminated and the management and operation of the administration functions of the Corporation began being performed by the Corporation's personnel. Invoices submitted for payment are required to have supporting documentation and an appropriate level of authorization prior to the disbursement of funds.

2006 - 9 Bank Reconciliations

<i>Criteria</i>	For internal controls to be effective and for material misstatements to be detected, bank reconciliations should be performed monthly in a timely manner.
<i>Condition</i>	Bank accounts were not reconciled timely. The Corporation contracted with outside consultants to perform the reconciliations for 2006, which were completed during 2008.
<i>Cause and Effect</i>	Due to the accounting problems that arose in the aftermath of Hurricanes Katrina and Rita and because of the errors in the LPMS system, it was not possible to reconcile bank accounts. The effect was inadequate controls over disbursements and receipts of funds.
<i>Recommendations</i>	We recommend the Corporation assign qualified personnel to perform reconciliation functions under the supervision of senior personnel. We further recommend formal timelines be established for the completion of the reconciliation and the review functions to ensure bank adjustments are recorded timely within the financial records to support management reports and financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 9 Bank Reconciliations (Continued)

*Management's
Response*

The bank reconciliations for 2006 and 2007 are complete and the 2008 bank reconciliations are up to date. Bank reconciliation policies and procedures have been implemented.

2006 - 10 Cash Disbursements

Criteria

An effective internal control over cash disbursements is for management to approve invoices prior to entry into the accounts payable system.

Condition

During our testing of cash disbursements, we could not evidence that management approved invoices prior to them being paid, nor were supporting documents cancelled after payment to prevent their re-use.

Cause and Effect

The cause appears to be insufficient accounting procedures in place to ensure proper authorizations are obtained prior to disbursements. The effect was inadequate controls over authorization of expenditures and disbursements of funds.

Recommendations

The approved invoice should be attached to the check when submitting for management's signature and the invoices should be canceled by indicating the date paid, check number, etc. on the invoice to avoid any potential duplicate payments. It is our understanding that management has changed its policy recently to incorporate management's review and approval of invoices prior to payment.

*Management's
Response*

During 2007, new procedures were put in place to require an authorized approval on all vendor invoices prior to payment.

2006 - 11 Stale Outstanding Checks

Criteria

To aid in the preparation of bank reconciliations and to reflect an accurate cash balance in the financial statements, management should establish a policy concerning uncashed checks based on current State escheat laws.

Condition

During our cash audit procedures, we noted that the outstanding check lists for the Coastal and FAIR Plan operating checking accounts contained checks dating from as early as January 2004. The Coastal Plan has approximately 190 checks totaling \$94,000 and the FAIR Plan has approximately 2,560 checks totaling \$3,684,000 listed which are older than one year.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 11 Stale Outstanding Checks (Continued)

<i>Cause and Effect</i>	The cause appears to be insufficient internal controls in place to ensure the outstanding check list provided by their financial institution is reconciled to the accounting software regularly to ensure accuracy in the preparation of the bank reconciliations. The effect was an inability to determine the actual balance of the outstanding checks and whether cash balances were accurately stated.
<i>Recommendations</i>	We recommend management establish a policy to ensure the outstanding check lists are reviewed regularly along with the bank reconciliations.
<i>Management's Response</i>	The Corporation has a written escheat policy that requires an annual review of all outstanding checks with written notice to the payee and escheatment after five years per Louisiana Statute.

2006 - 12 Premiums & Claims

<i>Criteria</i>	Internal control procedures and objectives over the premium and claim cycles as listed within the AICPA's Accounting and Auditing Guide for Property & Liability Insurance Companies include: <ul style="list-style-type: none"> • Input, output and data controls are maintained to ensure that all changes to the detail policy are processed properly. • Amounts included in commission calculations are reconciled to premiums written. • Policy endorsements and cancellations or other changes are approved; determinations of additional or return premiums are also reviewed. • Premiums register is balanced periodically to update premiums in force. • Premiums written are recorded in the general ledger and are reconciled periodically to premiums entered in statistical records and the premium register. • Deferrable costs are properly capitalized and amortized. • Supporting data for claims and compliance with company policies are reviewed before disbursement of claim payments.
<i>Condition</i>	During the year ended December 31, 2006, it does not appear that the Corporation had in place a testing, balancing, and reconciliation function for the premium and claims cycles. Also, there appeared to be inadequate review of endorsements, cancellations or other changes to policies. Claims payments requested by service providers under \$25,000 for general claims and \$75,000 for catastrophic claims are currently not reviewed by the Corporation's personnel.
<i>Cause and Effect</i>	The cause appears to be a lack of oversight by the Governing Board and possibly due to management's inadequate experience in the property insurance industry. As a result, the Corporation experienced difficulties in the premiums and claims processes.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 12 Premiums & Claims (Continued)

Recommendations Management should institute a review of its internal controls over the premium and claims cycles and implement changes as considered necessary.

Management's Response New management has implemented many of the controls described above. Management has evaluated its current controls over the premium and claims cycles to ensure that errors are identified in a timely manner. Due to the volume of Katrina/Rita claims, the service providers were granted increased authority to settle claims. Now that the bulk of storm claims have been processed, the service provider limits have been reduced and compliance reviews and audits have been instituted. Copies of the recent compliance reviews has been provided to the external auditors.

2006 - 13 Employee Expense Reimbursements

Criteria To ensure expenditures reported on the Corporation's financial reports are for the activities of the Corporation, all employee expense reimbursement requests must contain appropriate supporting documentation and authorization.

Condition Invoices submitted by PIAL for reimbursement from the Corporation, selected for audit testing, contained items for their employees' expense reimbursement requests. In many instances, they did not contain supporting documentation with the request, did not identify the business nature of the expense, or detail how these expenses related to Citizens' operations. Items for mileage reimbursement contained only amounts, no mileage logs or other details supporting the requests and many contained requests for actual gas receipts. One request contained 596 miles for a one way trip to Baton Rouge, but did not disclose where the trip departed from or the nature of business. We evidenced another request with an incorrect per mileage rate used for reimbursement and several others with descriptions unrelated to business, such as "Mardi Gras." Meals requested for reimbursement contained purchases for alcohol and of the receipts we were able to review, we identified at least nine which appeared to be excessive. We evidenced meals with average per person costs ranging from \$40 to \$117. We further evidenced daily per diem allowances paid to personnel who did not have overnight stays during travel.

Cause and Effect The cause appears to be a lack of oversight by the Governing Board over the authorization and review of the managing agent's requests for reimbursement. The effect was inadequate controls of cash disbursement functions.

Recommendations We recommend that an expense report be used by all employees when requesting reimbursement for business expenses. This form should be standardized by the Corporation and include spaces for the date the expense was incurred, the amount, the business nature, and be accompanied by receipts or other supporting documentation. The expense report should be reviewed and approved by the supervisor of the employee submitting the claim for reimbursement. The expense report should be marked paid and filed in the same manner as other operating expense disbursements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 13 Employee Expense Reimbursements (Continued)

*Management's
Response*

We have developed and are using a specific form for employee expense reports that requires receipts for any expenses greater than \$25.

2006 - 14 Calculation of Nonadmitted Premium Receivables

Criteria

Per the Statement of Statutory Accounting Principle (SSAP) No. 4, *Assets and Nonadmitted Assets*, and SSAP No. 6, *Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers*, the nonadmitted portion of the premium receivable should be calculated as any uncollected premium balance which is over 90 days due prior to the reporting date to the extent the amounts exceed any unearned premium recorded. Under Generally Accepted Accounting Principles,

Condition

The Corporation's current policy is to calculate the admitted portion, of premium receivables as an amount equal to all premium collections for the 90 days subsequent the reporting date without considering the amounts already reserved as unearned. This policy has also been adopted to estimate the allowance for uncollectible amounts in accordance with Generally Accepted Accounting Principles. It appears that the premium receivable balances reported within the financial statements are understated.

Cause and Effect

The LPMS software cannot provide an aging of accounts receivable, nor a detailed listing which supports the amounts reported within the financial statements. Nonadmitted premiums receivable cannot be calculated under the methods set forth in the standards. The method used is the best estimate management can provide until new software is created.

Recommendations

None

*Management's
Response*

The current system cannot produce an aged receivables report. This will be a requirement of the new policy management system. In the mean time, management assumes all outstanding receivables greater than 90 days are nonadmitted.

2006 - 15 Accounts Payable

Criteria

To quickly establish control over unpaid invoices and allow the Corporation to have a more complete record of its accounts payable at any given time, accounts payable should contain all open invoices awaiting payment.

Condition

The Corporation's accounting procedures do not require invoices to be entered into the computer system prior to the check run on which they will be paid. The accounts payable personnel keep a manual open invoice file for those awaiting payment.

Cause and Effect

The Corporation is not utilizing the full capabilities of their financial software to track outstanding accounts payable. The effect was inadequate controls over unpaid invoices.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 15 Accounts Payable (Continued)

Recommendations We recommend that invoices be keyed into the computer system as they are received and approved to streamline, and improve controls over accounts payable and cash disbursement processing.

Management's Response This process has been changed as recommended above.

2006 - 16 Internal Audit Function

Criteria Internal auditing is an independent appraisal activity within a company for the review of accounting, financial, and other operations. The overall objective is to carry out a program of tests of the Corporation's financial and operational activities and transactions to provide management with information about the effectiveness (and efficiency) of established accounting and operational policies, procedures, and controls, and the extent to which they are being followed. In the course of gathering such information, the reliability of accounting and other data generated within the Corporation may be evaluated. Another objective is the prevention and detection of fraud through the performance of audit tests and procedures. Internal auditors aid management to effectively monitor each division's compliance with corporate policies and procedures and could help ensure that each division is accounting and reporting in a consistent manner.

Condition At present, the Corporation does not have an internal audit function.

Cause and Effect None

Recommendations We believe the Corporation has grown to a size and complexity that warrants the consideration of an internal audit function.

Management's Response Management will consider the recommendation to establish an internal audit function.

2006 - 17 Accounting Policies and Procedures

Criteria A well-devised accounting manual can help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2006

2006 - 17 Accounting Policies and Procedures (Continued)

<i>Condition</i>	During our audit, we became aware that the Corporation does not have an accounting policies and procedures manual. Due to the volume of transactions and complexities involved with this industry, written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions that management performs.
<i>Cause and Effect</i>	The cause appears to be a lack of guidance by management in the development of sound accounting policies and procedures. The effect was an inability to identify whether procedures performed were as management intended.
<i>Recommendations</i>	It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.
<i>Management's Response</i>	Management has a written accounting policies and procedures manual covering most major aspects of the accounting process and continues to document additional policies and procedures as necessary.

Other Comments

The Compliance Audit Division of the Louisiana Legislative Auditor performed a compliance audit of the Louisiana Citizens Property Insurance Corporation and issued their report dated September 26, 2007. Copies of this report can be requested from the Legislative Auditor's Office at 1600 North Third Street, P.O. Box 94397, Baton Rouge, LA 70804 or through the internet at:

[http://app1.lia.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/\\$FILE/000016C4.pdf](http://app1.lia.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/$FILE/000016C4.pdf)

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Prior Year Findings
For the Year Ended December 31, 2006

Section I – Internal Control and Compliance Material to the Financial Statements

2005 - 1 Reporting Requirements

Condition The Corporation was not in compliance with State Laws and Regulations which require the annual audit be completed and submitted to the Legislative Auditor within six months of the close of the entity's fiscal year.

Status This condition for 2005 was resolved in 2008. The 2005 annual audit report and financial statements have been finalized and submitted to the Legislative Auditor.

2005 - 2 Policy Take Out Program

Status This condition has not been resolved. It has been repeated at finding **2006 - 2**. The Corporation's first policy take out program began in 2008.

2005 - 3 Board Minutes

Status This condition has not been resolved. It has been repeated at finding **2006 - 3**.

2005 - 4 Louisiana Plans Management System (LPMS)

Status This condition has not been resolved. It has been repeated at finding **2006 - 4**.

2005 - 5 Contract Review and Approval

Status This condition has not been resolved. It has been repeated at finding **2006 - 5**.

2005 - 6 Conflicts of Interest

Status This condition has not been resolved. It has been repeated at finding **2006 - 6**.

2005 - 7 PIAL's Contract Authorization & Reimbursement Requests

Status This condition has not been resolved. It has been repeated at finding **2006 - 7**.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Prior Year Findings
For the Year Ended December 31, 2006

2005 - 8 Supporting Documentation for PIAL Invoices

Status This condition has not been resolved. It has been repeated at finding **2006 - 8**.

2005 - 9 Bank Reconciliations

Status This condition has not been resolved. It has been repeated at finding **2006 - 9**.

2005 - 10 Cash Disbursements

Status This condition has not been resolved. It has been repeated at finding **2006 - 10**.

2005 - 11 Commissions Payable

Condition The Corporation does not record commissions payable in accordance with generally accepted accounting principles.

Status This condition for 2005 has been resolved. The 2006 financial statements have included amounts for commissions payable under generally accepted accounting principles.

2005 - 12 Capitalization Policy

Condition The Corporation has not adopted a capitalization policy, nor taken a physical inventory of fixed assets. All purchases have been expensed within the accounting records including, but not limited to, the LPMS system. Under generally accepted accounting principles, the capital assets of the Corporation should be capitalized and depreciated within the basic financial statements.

Status This condition for 2005 has been resolved. The 2006 financial statements have included amounts for capital assets under generally accepted accounting principles.

2005 - 13 Premiums & Claims

Status This condition has not been resolved. It has been repeated at finding **2006 - 12**.

2005 - 14 Employee Expense Reimbursements

Status This condition has not been resolved. It has been repeated at finding **2006 - 13**.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Prior Year Findings
For the Year Ended December 31, 2006

2005 - 15 Accounts Payable

Status This condition has not been resolved. It has been repeated at finding **2006 - 15.**

2005 - 16 Internal Audit Function

Status This condition has not been resolved. It has been repeated at finding **2006 - 16.**

2005 - 17 Accounting Policies and Procedures

Status This condition has not been resolved. It has been repeated at finding **2006 - 17.**

Section II – Internal Control and Compliance Material to Federal Awards

Not Applicable

Section III – Management Letter

Not Applicable